1999 Country Reports on Economic Policy and Trade Practices
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EUROPEAN UNION

Key Economic Indicators

(Billions of U.S. Dollars unless otherwise indicated)

	1997	1998	1999 1/
Income, Production and Employment:			
Nominal GDP	8095.6	8393.9	8182.5
Real GDP Growth (pct)	2.7	2.9	2.1
GDP by Sector:			
Agriculture	N/A	N/A	N/A
Manufacturing	N/A	N/A	N/A
Services	N/A	N/A	N/A
Government	N/A	N/A	N/A
Per Capita GDP (Thousands of US$)	21.6	22.3	21.8
Labor Force (Millions)	166.9	167.7	N/A
Unemployment Rate (pct)	10.7	10.0	9.6
Money and Prices (annual percentage growth):			
Money Supply Growth (M2/M3)	5.0	N/A	N/A
Consumer Price Inflation	2.1	1.5	1.3
Exchange Rate (USD/ECU annual average)	1.13	1.12	1.05
Balance of Payments and Trade:			
Total Exports FOB	820.2	816.1	N/A
Exports to U.S.	160.8	179.1	N/A
Total Imports CIF	765.2	793.5	N/A
Imports from U.S.	156.9	168.7	N/A
Trade Balance	55.0	22.6	N/A
Balance with U.S.	3.9	10.4	N/A
External Public Debt (pct of GDP)	71.7	69.7	68.6
Fiscal Deficit/GDP (pct)	2.3	1.5	1.5
Current Balance/GDP (pct)	1.5	1.2	0.9
Debt Service Payments/GDP (pct)	N/A	N/A	N/A
Gross Official Reserves	518.5	N/A	N/A
Aid from U.S.	N/A	N/A	N/A
Aid from Other Sources	N/A	N/A	N/A

1/ Estimates.

1. General Policy Framework

The European Union (EU), the largest U.S. trade and investment partner, is a supranational organization comprised of fifteen European countries: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden, and the United Kingdom. It is unique in that its member states have ceded to it increasing authority over their domestic and external policies, especially with the 1987 Single European Act and the 1993 “Maastricht” and 1999 "Amsterdam" amendments to the 1958 Treaty of Rome. Individual member state policies, however, may still present problems for U.S. trade, in addition to EU-wide actions.

The EU’s authority is clearest in trade-related matters. As a long-standing customs union, the EU represents the collective external trade interests of its member states in the World Trade Organization (WTO). Internally, the free movement of goods, services, capital and people within the EU is guaranteed by the Single Market program, an effort to harmonize member state laws in order to eliminate non-tariff barriers to these flows. Externally, with respect to services investment, intellectual property rights and food safety issues among others, competency for policy and negotiations is balanced between member states, the European Commission and the European Parliament. However, the European Commission enforces treaty provisions against anti-competitive practices throughout the EU. The EU is also gaining greater competence over investment from third countries.

The Maastricht Treaty provides for the creation of an Economic and Monetary Union (EMU) among the EU member states which went into effect on January 1, 1999 with the launch of a single currency, the euro. The 11 participating countries (Denmark, Greece, Sweden and the United Kingdom are not included) now have a single monetary policy conducted by the European System of Central Banks (ESCB), including the Frankfurt-based European Central Bank (ECB). Member states were generally successful in achieving the “convergence criteria” for EMU: maximum deficits of three percent of GDP, maximum gross national debt of 60 percent of GDP, inflation and interest rate levels no more than one and a half percentage points above the average of the three lowest rates among the member states, and two years of relative exchange rate stability. Since the euro's launch they have adhered to their Stability and Growth Pact's limit on excessive budget deficits (3 percent of GDP) by seeking to achieve balanced budgets by 2002.

The Union’s budget, consisting mainly of member state contributions because the EU has no independent taxing authority, is limited to 1.27 percent of the combined GDP of the 15 member states. Expenditures of roughly $100 billion are divided generally among agricultural support (40 percent), “structural” policies to promote growth in poorer regions (40 percent), other internal policies (five percent), external assistance (five percent) and administrative and miscellaneous (five percent).

2. Exchange Rate Policy

The third and final stage of EMU began on January 1, 1999 when 11 member states irrevocably fixed their exchange rates to the euro. Financial transactions are now available in euros through commercial banking institutions. Euro notes and coins will be introduced on January 1, 2002, fully replacing national currencies by July 1, 2002. During the transition period, there will be dual circulation between the euro and the respective national currencies.

The ESCB is responsible for setting monetary policy in the euro area, while national central banks will continue to conduct money market operations and foreign exchange intervention under its direction. Per requirement of the treaty, the ECB policy is focused on maintaining price stability. The euro follows a floating exchange rate regime against other currencies, with the exception of the currencies of Denmark and Greece which participate in the new Exchange Rate Mechanism (ERM-2) limiting their fluctuation against the euro to +/- 2.25 percent and +/- 15 percent respectively. EMU has provisions to create additional exchange rate arrangements, if the member states desire to do so. However, there are no current plans to seek such arrangements.

3. Structural Policies

Single Market: The legislative program removing barriers to the free movement of goods, services, capital and people is largely complete, although there are delays in member state implementation of Community rules and national differences in the interpretation of those rules. The net effect of the Single Market program has been freer movement, fewer member state regulations for products and service providers to meet, and real consolidation of markets. Nonetheless, some aspects of the program have created problems for U.S. exporters (as discussed below). Furthermore, disparate enforcement, inconsistent application and insufficient monitoring of Single Market measures within the EU place U.S. exporters at a disadvantage. EU efforts to remedy these problems are notable in some areas, but resources remain severely limited.

Tax Policy: Tax policy remains the prerogative of the member states, which must approve by unanimity any EU legislation in this domain. EU legislation to date has been aimed at eliminating tax-induced distortions of competition within the Union. Legislation focuses on harmonizing value-added and excise taxes, eliminating double taxation of corporate profits, interest, and dividends and facilitating cross-border mergers and asset transfers. The EU countries have stated their commitment to move further toward coordination of their tax policies, in addition to agreeing to a Code of Conduct to curb "harmful" business taxation.

4. Debt Management Policies

The EU raises funds in international capital markets, but does so largely for cash management purposes and thus does not have any significant international debt. The European Investment Bank, reportedly the world’s largest multilateral development bank, also raises funds in international markets. The bank has an extremely favorable balance sheet and retains the highest credit rating. Finally, the EU has used its borrowing power to on-lend to key developing countries, especially in Central Europe and the newly independent states of the former Soviet Union. It has consistently taken a hard line on efforts to reschedule their debt.

5. Significant Barriers to U.S. Exports

Import Policies

Import, Sale and Distribution of Bananas: The U.S. has been engaged for many years in efforts to resolve a long-standing dispute with the EU over its banana import regime. The WTO found that the EU's current regime remains WTO-inconsistent. The U.S. currently has WTO-approved retaliation in place worth 191.4 million dollars per year. The U.S. has tabled a number of constructive ideas on revised regimes that would be WTO-consistent. The European Commission is currently developing proposals for member state consideration. U.S. retaliation will remain in place until the EU implements a WTO-consistent banana import regime.

Restrictions Affecting U.S. Wine Exports to the EU: Current EU regulations require imported wines to be produced only by specifically authorized oenological practices. Since the mid-1980’s, U.S. wines have entered the EU market under a series of “derogations” granting EU regulatory exemptions. Access to the EU wine market is further impeded by a complicated wine-import certificate documentation process. The United States is negotiating an agreement with the EU to ensure the EU market remains open to U.S. wine. The U.S. does not believe EU legislation on "traditional expressions" (terms such as vintage or tawny) is WTO TRIPs consistent and therefore does not believe this area is appropriate for bilateral negotiation.

Services Barriers

EU Broadcast Directive: The EU’s 1989 Broadcast Directive (revised in 1997) provides that a majority of entertainment broadcast transmission time be reserved for European-origin programs “where practicable” and “by appropriate means.” Certain measures of the directive appear to violate WTO rules. The U.S. has reserved its right to take further action under dispute settlement procedures and will continue to monitor closely the implementation of these measures.

Computer Reservation Services: U.S. Computer Reservation Services (CRS) companies have had difficulties in the EU market because some member state markets tend to be dominated by the CRS owned by that member state’s flag air carrier. Most disputes have been resolved to the satisfaction of U.S. CRS vendors via U.S. government intervention or recourse to national administrative and court systems. In 1996 the U.S. Department of Justice forwarded a Positive Comity referral to the European Commission (DG Competition) requesting an investigation into anticompetitive activities in Europe that may have disadvantaged a U.S. CRS firm. The

Commission's investigation resulted in a European CRS firm being charged with activities that infringed competition rules. As of November 1999 a final Commission ruling has not been made.

Airport Ground-Handling: In October 1996, the EU issued a directive to liberalize the market to provide ground-handling services at EU airports above a certain size by January 1, 1998. U.S. airline companies and ground-handling service providers welcome this development. Yet they are concerned with an exemption that allows EU airports to continue having a monopoly service provider until January 1, 2002, and to limit the number of firms which can provide certain services on the airport tarmac (ramp, fuel, baggage and mail/freight handling). These potential barriers are partially offset by more liberal bilateral air service agreements, which the United States concluded with individual member states.

Postal Services: U.S. express package services are concerned with market access restriction and unequal competition caused by state-owned postal monopolies. Proposals to liberalize postal services and to constrain the advantages enjoyed by the monopolies have not made sufficient progress to redress these problems.

Standards, Testing, Labeling and Certification

Despite the Single Market program, the free movement of goods within the EU is still impeded by widely disparate member state standards, testing and certification procedures for some products. The "new approach," which streamlines technical harmonization and the development of standards for certain product groups using essential health and safety requirements, reflects the trend towards harmonization of laws, regulations, standards, testing, and quality and certification procedures in the EU. U.S. firms cannot directly participate in the European standardization process, but European standards bodies can be sympathetic to U.S. concerns when approached.

The Transatlantic Business Dialogue's (TABD) adopted goal of "approved once, accepted everywhere in the transatlantic marketplace" demonstrates the importance of standardization in U.S.-EU trade relations. The anticipation that EU standardization legislation will eventually cover 50 percent of U.S. exports to Europe demonstrates its significance. Although some progress has been made, U.S. exporters are still concerned with legislative delays, inconsistent member state interpretation and application of legislation, the ill-defined scope of directives and unclear marking and excessive labeling requirements. These problems can complicate and impede U.S. exports to the EU.

Mutual Recognition Agreements: In addition to implementing a harmonized approach to testing and certification, the EU is also providing for the mutual recognition of member state designated national laboratories to test and certify "regulated" products. For the testing and certification of non-regulated products, the EU encourages mutual recognition agreements between private sector parties. U.S. exporters face problems when only "notified bodies" in Europe are empowered to grant final product approvals of regulated products. There are some

U.S. laboratories, under subcontract to notified bodies, that can test regulated products. Yet these laboratories must still send test reports to their European affiliates for final product approval. Since this process can cause delays and additional costs for U.S. exporters, sufficient access for U.S. exporters cannot be provided in this fashion.

On May 18, 1998, the United States and the EU signed a package of Mutual Recognition Agreements (MRAs), allowing for conformity assessments to be performed in the United States to EU standards and vice versa. Both governments are committed to advancing joint efforts to promote mutual recognition, equivalency and harmonization of standards. The MRA entered into force on December 1, 1998 and is now being implemented. Under the Transatlantic Economic Partnership (TEP) established at the May 1998 U.S.-EU Summit, the U.S. set in motion a process to undertake negotiation of additional MRAs covering other sectors.

Biotechnology Product Approvals and Labeling: A majority of EU member states have called for a "moratorium" on approvals for products of biotechnology for the foreseeable future. Calls for segregation, traceability and labeling have not been well defined. The result has been an uncertain and ambiguous regulatory environment that neither instills consumer confidence nor provides clear criteria with which industry could comply. No biotechnology products have been approved since 1998. The Commission is currently conducting an internal review of the EU approach to biotechnology and food safety and expects to circulate a recommendation paper in early 2000.

Hormone-Treated Beef: The WTO has ruled consistently against the EU's ban on hormone-treated beef, most recently in early 1998. The EU did not come into compliance by May 13, 1998, as required, citing a need to perform additional risk assessments (which the WTO did not say were needed). Therefore, the U.S. has imposed WTO-approved retaliation worth 116.8 million dollars per year, pending EU compliance. A large body of scientific evidence indicates these products are safe as used. The EU does not expect its studies to be complete before mid-2000 at the earliest. The U.S. remains open to exploring meaningful compensation pending EU compliance.

Veterinary Equivalency: The U.S./EU Veterinary Equivalency Agreement (VEA) was signed on July 20, 1999 and implemented on August 1. The agreement provides a regulatory framework for recognition of equivalent sanitary measures of both parties of virtually all animals and animal products. However, recent statements by Commission officials have indicated that the EU is not prepared to recognize U.S. systems as equivalent in the near term. A joint management committee meeting of the VEA is planned for March 2000, when we hope to have ironed out many of the implementation issues

Aflatoxin Limits: In July 1998, the EU adopted a regulation harmonizing maximum levels of aflatoxin in peanuts, tree nuts and dried fruits, cereals and milk, effective January 1, 1999. At the same time, a directive specifying sampling methods to be used after December 31, 2000 was adopted. The United States considers the maximum limits unjustifiably low in relation to consumer exposure and risk. The sampling procedure will increase handling costs with no appreciable reduction of aflatoxin contamination in consumer protection.

Specified Risk Materials Ban: In response to growing concern over the transmission of "mad cow disease" or Bovine Spongiform Encephalopathy (BSE), the EU, in July 1997, passed a Specified Risk Material (SRM) regulation restricting the use and processing of certain animal products and by-products. Since tallow, tallow derivatives and gelatin are widely used in food manufacturing, pharmaceutical, cosmetic and industrial products, this regulation threatened to significantly restrict U.S. access to EU markets despite the fact that the United States is considered to have a negligible BSE-risk. Implementation of the ban continues to be delayed; a new proposal addressing the overall, long term problem of TSEs (transmissible spongiform encephalopathies) is expected to be presented in November 1999.

Hushkits or New Engine Modified and Recertificated Aircraft: In 1997, pressure on EU airport authorities to reduce noise levels resulted in a Commission effort to develop an EU-wide noise standard. When it became clear that it would be politically impossible to agree on such a standard, the Commission and the EU member states developed an alternative proposal. That proposal effectively passes the costs on to U.S. and other non-EU air carriers and to U.S. manufacturers of noise reduction technology (hushkits) and new engines for older U.S. aircraft. The Commission has provided no scientific analysis demonstrating that the regulation would reduce noise. The regulation was approved by the European Parliament in 1999 but, following U.S. protests, its implementation has been delayed until May 2000. The prospect of implementation has harmed the market for hushkitted and re-engined aircraft and negatively affected fleet values of some U.S. air carriers.

New Aircraft Certification: The United States continues to be concerned by the possibility that European aircraft certification standards are being applied so as to impede delivery of qualified aircraft into Europe. Processes and procedures currently employed by the European Joint Aviation Authorities (JAA) appear cumbersome and arbitrary, and in any event cannot be uniformly enforced. For example, France continues to insist on an exception to the JAA's decision on certification of Boeing's new model 737 aircraft that limits the seat density of aircraft sold to carriers in France. The JAA decision itself took an inordinately long time, during which additional conditions were imposed progressively on the U.S. firm. The United States desires a transparent, equitable process for aircraft certification that is applied consistently on both sides of the Atlantic according to the relevant bilateral airworthiness agreements.

Metric Labeling: In order to harmonize measurement systems throughout the EU, the EU adopted a directive in 1980, which mandates metric-only labeling on most goods entering the EU from January 1, 2000. Both EU and U.S. exporters have complained about the costs of complying with conflicting EU metric-only and U.S. mandatory dual labeling requirements. In response to strong industry and USG opposition, the EU approved a 10-year deferral of its metric-only directive in December 1999.

Voluntary Ecolabeling Scheme: In 1992, the EU adopted an EU-wide ecolabeling scheme. This is a voluntary scheme that allows manufacturers to obtain an ecolabel for a product when its production and life cycle meets the established criteria for the product category. Despite ongoing dialogues between the EU, U.S. government and U.S. interest groups, commitments to enhance transparency and scientific analysis from previous technical bilateral talks have not been upheld. To address this problem, a formal EU-U.S. technical working group was proposed in October 1998. The United States, due to concern that the EU ecolabeling scheme may become a de facto trade barrier, will continue to monitor closely the development of the ecolabeling scheme.

Packaging Labeling Requirements: In 1996, the Commission proposed a directive establishing marking requirements, indicating recyclability and/or reusability, for packaging. Due to the differences that exist between EU marking requirements and those used by the United States and the International Standards Organization (ISO), the United States is concerned with the additional costs and complications both U.S. and EU firms will face, in the absence of concomitant environmental benefits. The United States is also concerned with Article 4 of the proposed directive, which would prohibit the application of other marks to indicate recyclable or reusable packaging. This may require some companies to create new molds solely for use in the European market. Discussions underway in the ISO may resolve potential problems, especially since the Commission has indicated a willingness to review the proposed directive in light of an eventual ISO agreement.

Waste Management: European Commission environment officials are working on draft proposals for directives on batteries and on waste from electrical and electronic equipment. The United States supports the objectives of the drafts to reduce waste and the environmental impact of discarded products. However, the proposals' approach to banning certain materials (such as lead, mercury and cadmium) appears to lack adequate scientific and economic justification and may serve as unnecessary barriers to trade. Imposing sole responsibility on the manufacturer for the collection and recycling of used products also is unnecessarily burdensome. The draft directives are likely to be voted on by the Commission in early 2000. If adopted, the proposals would then move to the Council and European Parliament. U.S. and Commission waste experts have begun an informal dialogue to discuss these and other waste issues. The United States government will continue to monitor closely these proposals.

Acceleration of the Phase-Out of HCFCs: The European Commission adopted a proposal in July 1998 to amend EU Regulation 3093/94 on substances that deplete the ozone layer. The United States government actively opposed early drafts, which included phase-outs of some hydrochlorofluorocarbons (HCFCs) by 2000 or 2001, and would have disadvantaged U.S. producers while not necessarily benefiting the environment. The final Commission draft included a January 1, 2003 phase-out date for HCFCs used in refrigerator foam--in line with U.S. law--thereby protecting the export to the EU of U.S. refrigeration equipment. The Council agreed to the 2003 date in adopting its Common Position in late December 1998, but the Parliament sought to accelerate the date to 2002. In December 1999, Parliament rejected this amendment, so the 20003 phase-out date for HCFCs used by the air conditioning industry, while similarly manufactured heat pump systems received a 2004 deadline. The U.S. government will continue to monitor this issue.

Investment Barriers

The European Union and its fifteen member states provide one of the most open climates for U.S. direct investment in the world, with well-established traditions concerning the rule of law and private property rights, transparent regulatory systems, freedom of capital movements and the like. Traditionally, member state governments have been responsible for policies governing non-EU investment. However, in the 1993 Maastricht Treaty, partial competence was shifted to the EU. Member state policies existing on December 31, 1993 remain effective, but can be superseded by EU law. In general, the EU supports the idea of national treatment for foreign investors, arguing that any company established under the laws of one member state must, as a "Community company," receive national treatment in all member states regardless of ultimate ownership. However, some restrictions on U.S. investment do exist under EU law.

Ownership Restrictions: The benefits of EU law in the aviation and maritime areas are reserved to firms majority-owned by EU nationals.

Reciprocity Provisions: The "reciprocal" national treatment clause found in EU banking, insurance and investment services directives allows the EU to deny a third-country financial services firm the right to establish a new business in the EU if it determines that the investor's home country denies national treatment to EU firms. This notion of reciprocity may have been taken further in the Hydrocarbons Directive which requires "mirror-image" reciprocal treatment where an investor is denied a license if its home country does not permit EU investors to engage in activities under circumstances "comparable" to those in the EU. It should be noted that, thus far, these reciprocity provisions have not affected U.S. firms. In fact, the EU reiterated to the WTO in April 1998 that neither the Commission nor the EU member states would invoke the reciprocity clause in the EU banking directive with other WTO members in the light of the specific most-favored-nation commitments made during the WTO financial services negotiations.

Access to Government Grant Programs: The EU does not preclude U.S. firms established in Europe from access to EU-funded research and development grant programs, although in practice, association with a "European" firm is helpful in winning grant awards.

Anti-Corruption: In an attempt to coordinate disparate member state legislation on anti-corruption, the Commission, in 1997, adopted a discussion document suggesting guidelines for the development of a coherent EU-level anti-corruption policy. However, there has been little follow-up to the recommendations, and EU member state legislation on corruption is presently far from homogeneous. A number of EU member states have yet to ratify the OECD convention on anti-bribery.

Government Procurement

Discrimination in the Utilities Sector: The Utilities Directive, which took effect in January 1993, is an effort to open government procurement within the EU. It covers purchases in the water, transportation, energy and telecommunications sectors. The directive benefits U.S. firms by requiring open and objective bidding procedures, but still discriminates against non-EU bids unless provided for in an international or bilateral agreement. This discriminatory provision was waived for the heavy electrical sector in a 1993 Memorandum of Understanding (MOU) signed between the EU and the United States. A year later, in a new agreement, the idea of non-discriminatory treatment was extended to over $100 billion of goods procurement on each side. Much of the 1994 agreement is implemented through the 1996 WTO Government Procurement Agreement.

Telecommunications Market Access: Consistent with the WTO Agreement on Basic Telecommunications Services and EU legislation requiring liberalization, there is a general trend toward increased competition and openness in the European telecommunications services market. Access of U.S. firms, however, varies considerably from member state to member state due to uneven implementation of commitments. While not specific to U.S. firms, high interconnection tariffs in many member states present a serious barrier. The ability of telecommunications regulatory bodies to exercise authority quickly and effectively varies among member states. This has, in some instances, hampered competition. The European Commission has proposed streamlining the European regulatory structure and increasing dialogue among regulators and the Commission to enhance, inter alia, regulatory efficiency.

Procurement policies and practices are becoming more competitive, but discrimination against non-EU bids for public procurement in the telecommunications sector remains. In the long run, as privatization in the sector increases, this barrier will lessen in importance, but access still may be impeded by standards, standard-setting procedures, testing, certification and interconnection policies. In this regard, the U.S. has serious concerns about market access for third generation (3G) wireless telecommunications. Member states appear to be formulating licensing rules and procedures that favor a single European standard. The U.S. has urged the European Commission and member states to modify their rules, as needed, to ensure market access for providers of products based on all internationally accepted 3G standards.

Other Barriers

Data Privacy: The EU Data Protection Directive entered into force in October 1998. It sought to harmonize the treatment of personal data within the EU to increase protection and facilitate the flow of information within Europe. The Directive only allows the transfer of data to third countries if they are deemed to provide “adequate protection.” The U.S. is discussing a Safe Harbor Initiative with the EU, which would create an interface for our different approaches to data privacy and ensure that data flows are not interrupted.

6. Export Subsidies Policies

Agricultural Product Subsidies: The EU grants direct export subsidies (restitutions) on a wide range of agricultural products. Payments are nominally based on the difference between the EU internal price and the world price, usually calculated as the lowest offered price by competing exporters. In addition, the complexities of EU law, along with the availability of preferential loans and structural funds, may further support EU agricultural exports. Under the Uruguay Round agreement, the EU is required to reduce direct export subsidies by 21 percent in volume and 36 percent in value over six years. Whether or not the EU is abiding by its commitments remains an issue of contention.

Canned Fruit: The U.S. cling peach industry has complained that the EU provides excessive support to their canned fruit industry and that the EU has failed to observe the 1985 U.S.-EU Canned Fruit Agreement. This allows EU fruit processors to unfairly undercut the domestic and export prices for EU trading partners. The U.S. Government has consulted with the EU on this issue several times. Currently, EU data on subsidy levels to its canned fruit processors is being reviewed, but effects of EU subsidies on global prices appear significant.

Shipbuilding Subsidies: Responding to pressure from the shipbuilding industry, the United States, in 1994, successfully brokered an OECD agreement to eliminate subsidies that were distorting the world ship market. Following the non-ratification of the agreement by the U.S. Senate, the EU adopted its own shipbuilding directive in May 1998. This directive contains the EU's own timeline for phasing out subsidies, primarily aimed at leveling the playing field within the EU.

Government Support for Airbus: Since the inception of the European Airbus consortium in 1967, its partner governments (France, Germany, Spain and the United Kingdom) have provided massive support to their national company partners in the consortium to aid the development, production and marketing of large civil aircraft. Since that date, the Airbus partner governments either have committed, or are in an advanced stage of consideration of providing, additional funds for derivative models of current Airbus aircraft. The United States is concerned that the launch of new Airbus programs and the restructuring of the Airbus consortium may be used to justify additional government subsidies. The United States also continues to be concerned that the European Union and its member states may attempt to influence commercial aircraft competitions in favor of Airbus aircraft in a manner inconsistent with its obligations. The United States will continue to monitor EU involvement in future competitions and its compliance with aircraft trade agreements.

7. Protection of U.S. Intellectual Property

The EU and its member states support strong protection for intellectual property rights (IPR). EU member states are participants of all the relevant WIPO conventions. Along with the EU, they regularly join with the United States to encourage other countries to adopt and enforce high IPR standards, including those in the TRIPs Agreement. However, the United States has challenged several member states on their failure to fully implement the TRIPs Agreement.

Designs: The EU agreed to compromise language on industrial designs and models legislation. In general, the directive harmonizes national rules on design protection, but does not provide for registration and protection of spare components of complex products (such as visible car spare parts). A regulation currently under review would designate the Office for Harmonization in the Internal Market (OHIM, also known as the Community Trademark Office) in Alicante, Spain as the EU registrar for designs.

Patents: Patent filing and maintenance fees in the EU and its member states are expensive relative to other countries. Fees associated with the filing, issuance and maintenance of a patent over its life far exceed those in the U.S. In an effort to introduce more reasonable costs, the European Patent Office (EPO) reduced fees for filing by 20 percent in 1997.

European Community Patent*:* Draft legislation to establish a European Community Patent to harmonize patent issuance in EU member states, and supplement patents issued by the EPO (with a wider membership than the EU) is slated for late 1999. However, a stumbling block to this effort is disagreement among member states on which official EU languages will be used in patent applications.

Trademarks: Registration of trademarks with the European Community trademark office (official name: Office for Harmonization in the Internal Market – OHIM) began in 1996. OHIM, located in Alicante, Spain issues a single Community trademark with is valid in all 15 EU member states.

Madrid Protocol: The World Intellectual Property Organization's (WIPO) Madrid Protocol provides for an international trademark registration system permitting trademark owners to register in member countries by filing a standardized application. The U.S. has not acceded because it objects to voting provisions in the protocol that would allow the EU a vote upon accession in addition to the votes of its member states. The U.S. has proposed a voting arrangement to the EU that would establish voting procedures to address U.S. concerns. The EU has not yet responded to the U.S. proposal.

Trademark Exhaustion: The trademark exhaustion principle limits a trademark owner's ability to resort to remedies against importers/distributors of trademarked goods outside channels authorized by the trademark owner. The current EU regime supports the principle of "Community exhaustion," which allows resale of trademarked goods within the fifteen member states once the trademark owner licenses their sale in any EU country.

In 1998 a European Court of Justice ruling upheld the legality of Community trademark exhaustion within the EU. The European Commission has defended the principle by maintaining that Community exhaustion heightens competition within the internal market. However, member state opinion remains divided and at the insistence of the U.K. and Sweden, the Commission began a study into the economic impact of Community exhaustion in the member states. European discount chains prefer, and have actively lobbied for, a system of "international exhaustion," which limits the trademark owner's right to control distribution of goods once he/she licenses them for sale anywhere in the world.

Copyrights: U.S. corporate opinion is divided on proposed legislation to harmonize copyright law in EU member states and comply with WIPO treaties. The EU proposed directive is the subject of active lobbying by U.S. business interests. The U.S. has encouraged the EU to take all stakeholders into account and develop legislation compatible with the U.S. Digital Millennium Copyright Act.

8.   Worker Rights

Labor legislation still remains largely the domain of individual member states. Recent decisions taken at the Luxembourg, Cardiff, and Cologne EU Summit Meetings of the EU have, however, significantly increased cooperation on employment issues. Specifically, the Luxembourg Process created a system of goals on employment and annual reviews of each country's progress toward meeting them. The Cardiff Process sought to liberalize further the movements of goods, services, and capital as a means of increasing employment in EU countries. And the Cologne Process, in the European Employment Strategy signed at the Summit, brought the EU's coordination in employment and macroeconomic policies closer together.

Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad on an Historical Cost Basis -- 1998

(Millions of U.S. Dollars)

Category		Amount
Petroleum		24,953
Total Manufacturing		146,007
Food & Kindred Products	14,155	
Chemicals & Allied Products	49,798	
Primary & Fabricated Metals	9,308	
Industrial Machinery and Equipment	19,100	
Electric & Electronic Equipment	11,841	
Transportation Equipment	14,555	
Other Manufacturing	27,250	
Wholesale Trade		32,324
Banking		20,190
Finance/Insurance/Real Estate		154,733
Services		31,699
Other Industries		23,751
TOTAL ALL INDUSTRIES		433,658

Source: U.S. Department of Commerce, Bureau of Economic Analysis.